

Careful about imposing a state income tax | Don Brunell

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Connecticut is in a deep financial pickle and is in danger of seeing a mass exodus of businesses looking for states where taxes are lower and private sector employers are welcome.

Connecticut, a state of 3.6 million people, just passed a two-year \$40 billion state budget, which is roughly the amount Washington Gov. Jay Inslee (D) and lawmakers in Olympia are grappling over. But an accumulation of tax increases has Connecticut taxpayers steaming and looking to leave.

This is what happened.

Right after Gov. Dannel Malloy (D) assumed office in 2011, he and Democratic lawmakers passed a \$2.5 billion income-tax hike – the biggest in the state's history. The problem is the revenue got spent, taxpayers fled the state and the flimsy economy never really pulled out of the Great Recession.

During his 2014 re-election campaign, Malloy promised not to raise taxes and said there would not be a budget deficit, but a year later lawmakers, with Malloy's blessing, passed \$1.2 billion in new taxes mostly on employers, to plug a gaping \$2 billion budget hole.

According to the Investor's Business Daily (IBD), the seeds of Connecticut's ongoing budget crisis date back to 1991 when then-Gov. Lowell Weicker Jr. introduced the state's first-ever income tax as a new revenue source that would solve Connecticut's budget woes for decades.

But just the opposite happened. Spending soared after the politicians had access to a new cash cow of income tax receipts.

IBD reports the income tax has been raised five times since the early 1990s. So, a state that originally had no income tax, then started with a low flat rate of 4.5 percent, now has a top rate of 6.99 percent.

It also has one of the highest estate taxes, so people with wealth scam to Florida and Texas. Lawmakers responded by looking for new types of taxes. Connecticut is one of

only eight states that taxes computer processing services and that tax is about to triple over the next three years.

IBD reports, "...now several of the largest corporations in the state, including Yankee mainstays such as insurance giants Aetna and Travelers, as well as General Electric, are threatening to leave and get out of this abusive relationship."

GE's CEO Jeff Immelt told his thousands of Connecticut-based employees that he has put together a team to evaluate a move to another state with "a more pro-business environment." He says the company's state taxes have increased five times since 2011 and the new hike would impose "significant and retroactive tax increases for businesses."

IBD wrote that Aetna complained that it already pays \$65 million a year in state and local taxes and under this budget its burden rises another 27 percent.

It is not only the Fortune 500 companies who are upset; the latest actions have infuriated Connecticut taxpayers who are already paying the third-highest state and local taxes in the nation and their income taxes are headed up yet again.

Compounding the problem is Gallup's annual ranking of state job markets in 2014.

Connecticut ranks last in job creation, a position it has held since 2008. That same year, Fortune named Connecticut as the fourth worst place to do business.

Washington's State Supreme Court tossed out our state income tax in 1933 and several efforts to amend our constitution to re-impose it have failed. Some income tax proponents say the time might be ripe again to take another run at changing the constitution.

Before we consider such a move, we should keep in mind Connecticut's experience.

After all, we already have lots of businesses that are being recruited every day to pack up and leave.